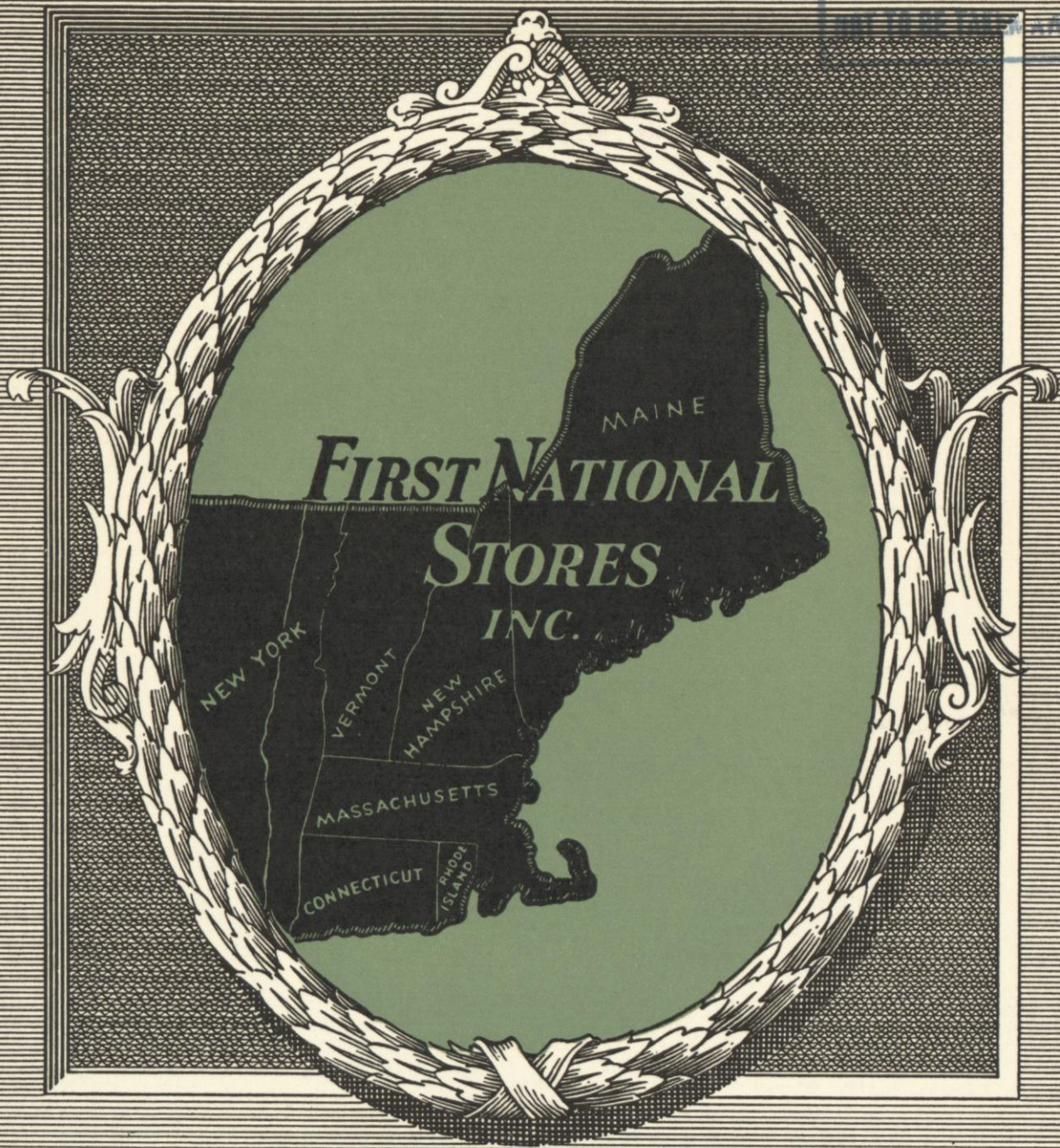


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Annual Report
FIRST NATIONAL STORES INC.
year ending

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April 1st 1939

FIRST NATIONAL STORES INC.

Officers

ARTHUR O'KEEFFE, *President*

CHARLES F. ADAMS, *Treasurer*

JAMES C. DUANE	<i>Vice-President</i>
BERNARD F. MCGOLDRICK	<i>Vice-President</i>
MORRIS JOSELOFF	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
RALPH F. BURKARD	<i>Assistant Treasurer</i>
JOHN E. ELWELL	<i>Clerk</i>



Executive Committee

CHARLES F. ADAMS
RALPH F. BURKARD
MORRIS JOSELOFF
BERNARD F. MCGOLDRICK
ARTHUR O'KEEFFE



Directors

CHARLES F. ADAMS
CHARLES H. BURGER
RALPH F. BURKARD
JAMES C. DUANE
BYRON M. FLEMMING
ROBERT F. IRWIN
MORRIS JOSELOFF

SAMUEL JOSELOFF
JOHN L. MACNEIL
BERNARD F. MCGOLDRICK
JAMES J. O'HARE
MICHAEL J. O'HARE
ARTHUR O'KEEFFE
NATHANIEL E. WHITTEMORE

Somerville, Massachusetts, June 8, 1939.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending April 1, 1939 is presented herewith.

The figures given in this report are comparable with those of prior years as there has been no change in the Company's established method of bookkeeping. The Balance Sheet and Statement of Earnings and Surplus Account have been prepared by independent accountants, Messrs. Price, Waterhouse & Co., and their statement of comments thereon is included in this Report.

The results of the operations for the year show an increase in our weekly average retail sales of 1.86% and with food retail prices, as published by the State of Massachusetts, approximately 6.34% lower than for the previous fiscal year, our tonnage sales increase was substantially higher than our weekly average sales increase; earnings were slightly higher; working capital was increased \$810,214. Your Company is in strong financial condition and has adequate working capital.

The following is a condensed summary of operations for the fiscal year ending April 1, 1939, compared with operations for the fiscal year ending April 2, 1938. There is also shown the financial position of this Company at April 1, 1939 compared with April 2, 1938.

	<i>For the Fiscal Year Ending</i>	
	<i>April 1, 1939*</i>	<i>April 2, 1938*</i>
Retail store sales	\$124,222,955	\$124,294,617
Net profits after taxes, depreciation and all charges and available for dividends . . .	\$2,774,366	\$2,705,191
Earnings per share of common stock after preferred dividends paid during the year (on common shares outstanding at end of year) .	\$3.38 *52 weeks	\$3.14 *53 weeks
	<i>As of</i>	
	<i>April 1, 1939</i>	<i>April 2, 1938</i>
Net working capital (current assets less current liabilities)	\$14,876,981	\$14,066,767
Fixed or property assets (less depreciation) . .	\$9,024,152	\$8,987,253
Net worth	\$24,470,623	\$23,746,089
Earned surplus	\$17,342,501	\$16,617,966

On the following page there are graphic charts showing the results of our operations for the past thirteen years.

DEPRECIATION CHARGES AND MAINTENANCE CHARGES

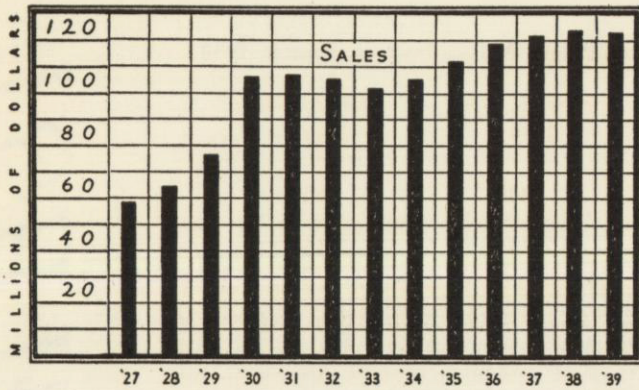
	<i>Fiscal Years</i>		
	<i>1939</i>	<i>1938</i>	<i>1937</i>
Depreciation charges	\$956,014	\$1,005,648	\$1,079,777
Maintenance repairs and renovation charges .	\$1,057,944	\$921,245	\$928,639

The above amounts were charged to earnings in their respective years to cover the depreciation, maintenance repairs and renovation of all of our depreciable assets, including buildings owned store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

DIVIDENDS PAID

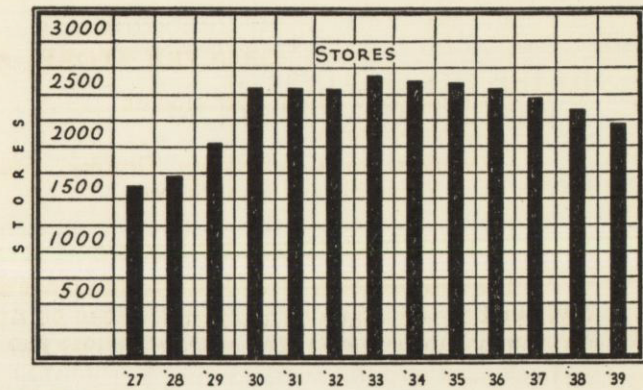
Four quarterly dividends of 62½ cents a share totalling \$2.50 were paid for the fiscal year on the common stock outstanding.

Four regular quarterly dividends of 20 cents a share totalling \$.80 were paid for the fiscal year on the small remaining outstanding balance of preferred shares (7007 shares of \$10 par value).



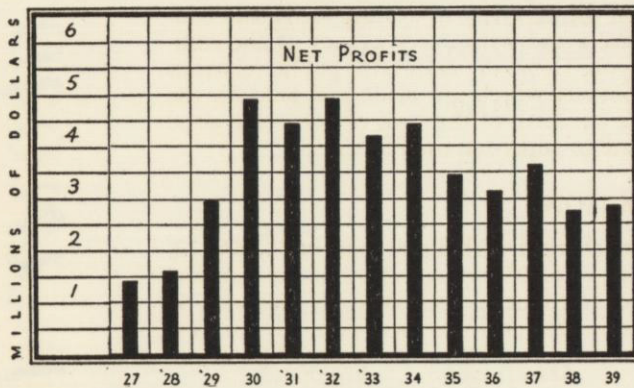
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1932	\$107,634,383	1937	\$120,682,961
1928	64,445,962	1933	100,892,947	1938	124,294,617
1929	75,884,639	1934	105,812,781	1939	124,222,955
1930	107,635,216	1935	111,323,463		
1931	108,196,686	1936	119,575,417		



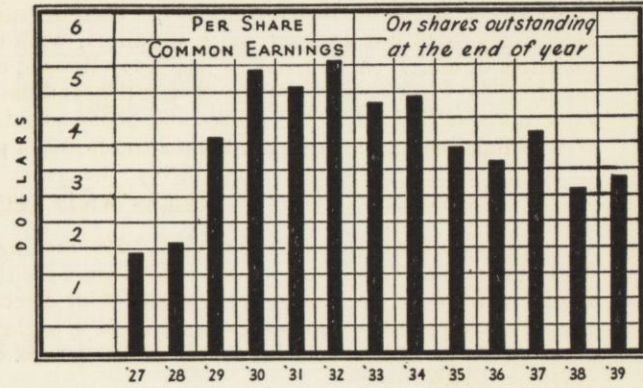
Stores—Fiscal Years

1927	1681	1932	2546	1937	2473
1928	1717	1933	2705	1938	2350
1929	2002	1934	2653	1939	2244
1930	2549	1935	2623		
1931	2548	1936	2556		



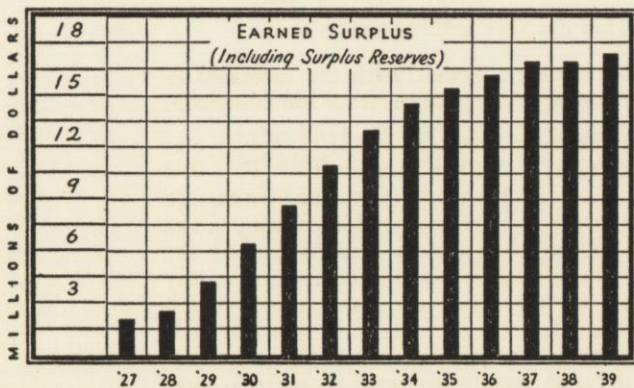
Net Profits—Fiscal Years

1927	\$1,492,193	1932	\$4,825,611	1937	\$3,647,001
1928	1,593,358	1933	4,220,099	1938	2,705,191
1929	2,904,884	1934	4,394,830	1939	2,774,366
1930	4,773,446	1935	3,433,504		
1931	4,479,108	1936	3,163,329		



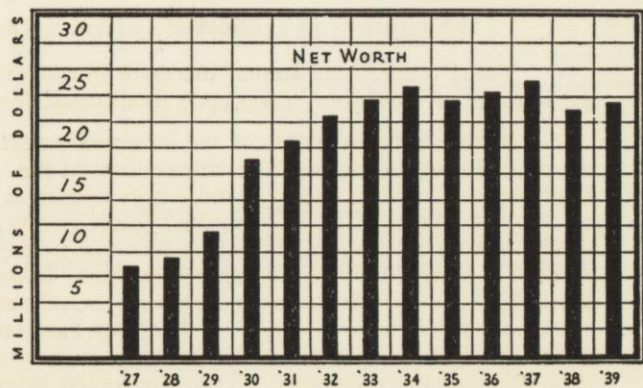
Per Share Common—Fiscal Years

1927	\$1.92	1932	\$5.52	1937	\$4.24
1928	2.09	1933	4.78	1938	3.14
1929	4.07	1934	4.97	1939	3.38
1930	5.39	1935	3.89		
1931	5.03	1936	3.65		



Surplus (Including Surplus Reserves)
Fiscal Years

1927	\$1,996,375	1932	\$10,816,321	1937	\$16,670,118
1928	2,238,303	1933	12,666,672	1938	16,688,036
1929	3,987,782	1934	14,213,494	1939	17,423,131
1930	6,369,726	1935	15,121,448		
1931	8,371,910	1936	16,062,827		



Net Worth—Fiscal Years

1927	\$8,723,782	1932	\$22,793,743	1937	\$26,369,140
1928	8,965,710	1933	24,644,094	1938	23,746,089
1929	11,724,410	1934	26,190,916	1939	24,470,623
1930	18,347,148	1935	24,820,470		
1931	20,349,333	1936	25,761,849		

GROCERY STORES AND MARKETS

Your company had in operation on	<i>April 1, 1939</i>	<i>April 2, 1938</i>
Grocery Stores	1,795	1,891
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	449	459
Total Grocery Stores and Markets	2,244	2,350

The concentration of our business into fewer and larger stores still continues and on April 1, 1939, we had 106 less stores in operation than on April 2, 1938. Since 1933 this trend has been in effect in our operations as well as in our industry in general.

PUBLIC RELATIONS

In recent years, perhaps no phrase in the vocabulary of business has been reiterated more frequently than "public relations". The management of your Company has developed a public relations philosophy and a type of public relations work which we believe best meets the requirements of our individual business. We have adopted methods which are simple and direct and our public relations approach is personal, rather than impersonal. We hold that there can be no lasting goodwill which is not deeply rooted in sound business policies and practices. Good "public" relations, in our thinking, begin with good "private" relations; that is, in keeping uppermost at all times in the minds of the members of our own organization the necessity of dealing fairly and constructively with one another, with suppliers, with customers and with every agency of the communities in which we live and do business. Beyond that, your Company maintains public relations facilities for continuous, organized, intelligent human contacts which are made and held on the same basis as the individual makes and holds friends. We conceive of the task of corporate good will as one for our entire organization and not as a separate or super-imposed function.

TAXES AND LEGISLATION

For the fiscal year ending April 1, 1939, earnings were charged with direct taxes of \$1,666,112. This amounts to 37% of our profits before taxes for the year, or \$2.03 for each share of our common stock, or \$724 for each store we operate. Our direct taxes continue to increase each year and, as the following summary indicates, were 13.81% higher than for the previous fiscal year. In our 1930 fiscal year our direct taxes were 14% of our profits before taxes; in 1939—they were 37%—an increase of 164%.

<i>Fiscal Year</i>	<i>Total Direct Taxes</i>	<i>% of Income (before Taxes)</i>	<i>Per Share On Common</i>	<i>Per Store Operated</i>
1939	\$1,666,112	37%	\$2.03	\$724
1938	1,463,828	35%	1.79	606
1937	1,435,070	28%	1.75	568
1936	1,222,567	28%	1.50	469
1935	1,132,096	24%	1.38	428
1930	796,693	14%	.97	324

These tremendous annual increases in our direct tax levies, together with the increases in the indirect or "invisible" taxes upon foods constitute a serious operating problem for our company.

In our last annual report we informed stockholders that on February 14, 1938, a Bill was introduced into the House of Representatives of the United States called the Patman Bill. This Bill has been re-introduced this year and is now known as H.R. 1 and has been referred to the Committee on Ways & Means. The Bill provides (after two years at lower rates) for a graduated annual tax on chain store units up to \$1,000 for each store in excess of 500 and then the tax is multiplied by the number of States in which a company operates. In our case the annual cost would be approximately \$15,000,000 or over five times our present annual earnings. We appreciate the many letters which our stockholders have informed us that they have sent to their legislators protesting this Bill and, while the Bill has not yet had a hearing, it is important that we continue our protests against this discriminatory measure. Your continued protests to your legislators will properly inform them on this issue and will aid materially in defeating this discriminatory and uneconomic proposal.

While in recent years attempts have been made toward enactment, we are pleased to report that at present there are no so called discriminatory "chain store taxes" in the New England States where we operate.

STOCKHOLDERS

While there was a slight decrease in the number of our common stockholders since our last fiscal year, today there are over 9,000 shareholders in our company residing in practically every city and town in New England where our stores are located, and throughout the rest of the United States and some foreign countries as well.

The savings or capital which our stockholders have invested in this business make possible the substantial benefits which accrue to producers and consumers—through our economical and efficient distribution of life's greatest necessity—food. And our stockholders, aside from the reasonable dividends which they receive upon their investment, may justly feel they are a part of a worthy enterprise and that they have participated in accomplishing these much needed economic benefits.

The following table shows the number of our common shareholders at various intervals since 1926.

		<i>As of March</i>			
1939	1938	1935	1932	1929	1926
9,121	9,228	6,576	4,607	1,975	1,304

TREASURY STOCK—OPTIONS

Of the 9,557 shares of common stock acquired by purchase and on hand in our treasury on April 1, 1939, 3,820 shares are set aside under option to certain employees at a price near the market at the time such options were executed.

We take this opportunity to record our thanks and appreciation to our employees who have loyally supported and cooperated with our management during the past year.

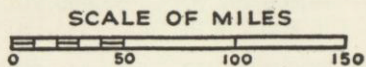
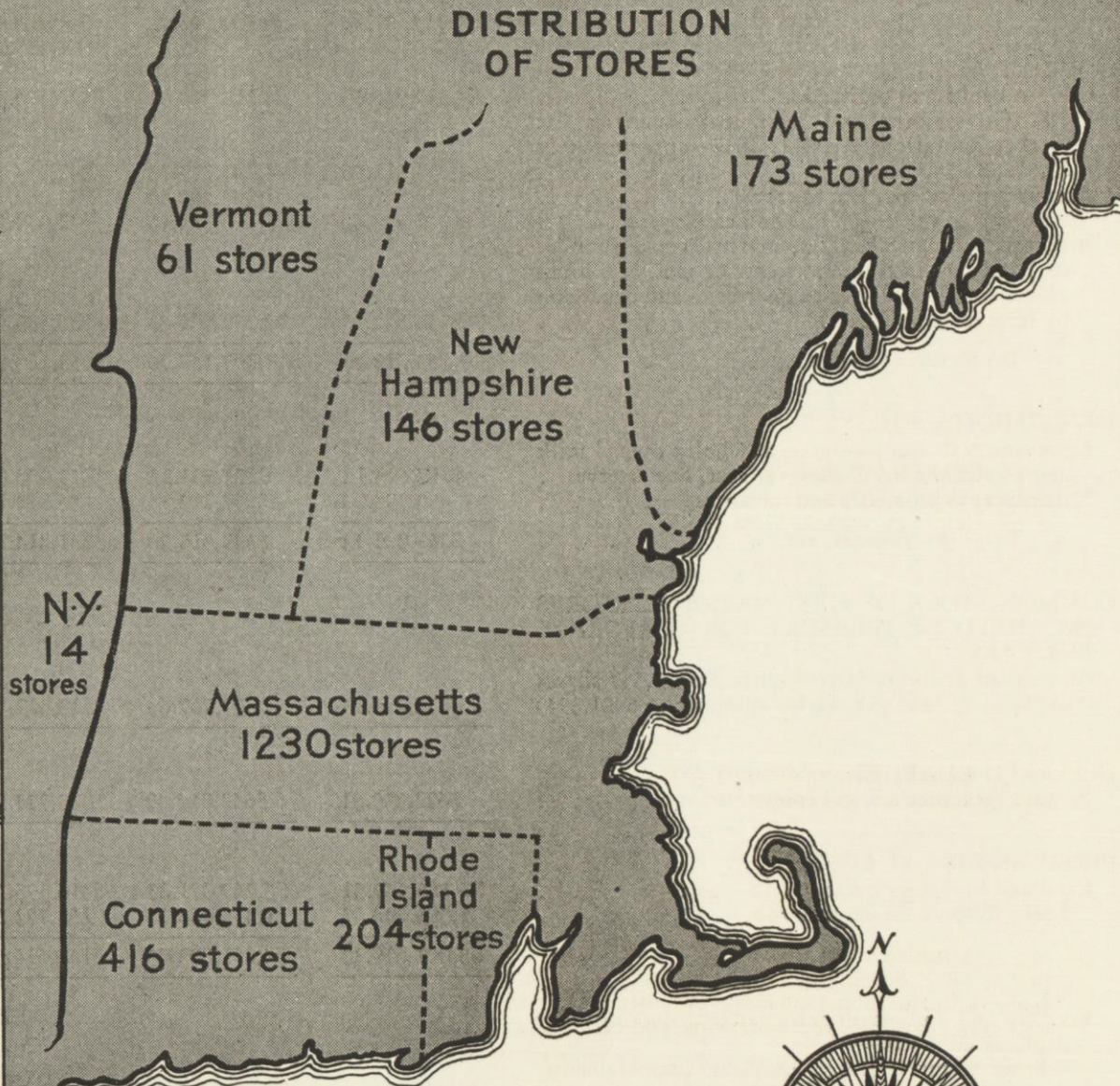
ANNUAL MEETING—PROXIES

A notice of the Annual Meeting of stockholders, proxy statement and proxy accompany this report. Stockholders are requested to sign the management's authorized proxy and *mail promptly* in the return envelope provided. Your immediate cooperation in this important matter will save your company much time and expense and will be greatly appreciated.

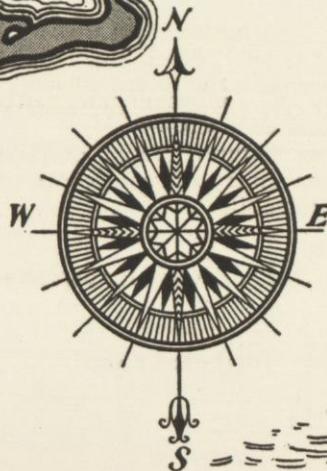
ARTHUR O'KEEFFE,
President.

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION OF STORES



**Total Number
of Stores
as of April 1, 1939
2244**



FIRST NATIONAL STORES INC.
Comparative Balance Sheet—April 1, 1939 and April 2, 1938

ASSETS			
	April 1, 1939	April 2, 1938	Increase *Decrease
CURRENT ASSETS:			
Cash in banks and on hand	\$4,635,046.55	\$4,114,359.81	\$520,686.74
U. S. Government and municipal securities (at market quotations April 1, 1939—approximately \$4,518,000)	4,433,511.96	4,091,277.23	342,234.73
Accounts receivable, less reserve	334,845.13	390,899.52	*56,054.39
Accounts receivable—officers and employees	2,772.60	4,844.77	*2,072.17
Inventories of merchandise, materials and supplies on hand and in transit, at cost or market which- ever lower (certified as to quantities and condition by responsible officials)	10,458,842.36	10,298,508.43	160,333.93
Total current assets	\$19,865,018.60	\$18,899,889.76	\$965,128.84
INVESTMENTS, ETC.:			
Investments in and advances to wholly owned milk and creamery subsidiaries—at cost, less reserve	\$217,603.12	\$292,603.12	*\$75,000.00
Miscellaneous securities and advances	50,398.00	57,212.18	*6,814.18
Total investments, etc.	\$268,001.12	\$349,815.30	*\$81,814.18
COMMON STOCK OF FIRST NATIONAL STORES INC. HELD IN TREASURY FOR CORPORATE PURPOSES:			
At reduced amounts carried on books—9,557 shares at April 1, 1939 (at market quotation—\$401,394)	\$254,455.13	\$267,767.63	*\$13,312.50
DEFERRED CHARGES:			
Prepaid insurance and expenses	\$622,239.51	\$648,014.42	*\$25,774.91
FIXED ASSETS (AT COST):			
Land and buildings owned	\$6,585,467.51	\$6,269,071.23	\$316,396.28
Less—Reserve for depreciation	1,583,848.38	1,418,066.18	165,782.20
	\$5,001,619.13	\$4,851,005.05	\$150,614.08
Fixtures and equipment, etc. (after deducting fully depreciated assets)—			
Store fixtures, leased property improvements, machinery and equipment	\$8,306,102.90	\$8,490,516.52	*\$184,413.62
Automobiles	500,967.78	556,150.90	*55,183.12
	\$8,807,070.68	\$9,046,667.42	*\$239,596.74
Less—Reserve for depreciation	4,784,537.68	4,910,419.37	*125,881.69
	\$4,022,533.00	\$4,136,248.05	*\$113,715.05
Total fixed assets	\$9,024,152.13	\$8,987,253.10	\$36,899.03
GOODWILL	\$1.00	\$1.00
	\$30,033,867.49	\$29,152,741.21	\$881,126.28

FIRST NATIONAL STORES INC.
Comparative Balance Sheet—April 1, 1939 and April 2, 1938

LIABILITIES			
	April 1, 1939	April 2, 1938	Increase *Decrease
CURRENT LIABILITIES:			
Acceptances payable under letters of credit	\$64,273.87	\$116,541.35	*\$52,267.48
Accounts payable	2,761,493.45	2,736,894.24	24,599.21
Accrued taxes and other expenses	1,083,542.46	933,424.16	150,118.30
Employees' investment certificates	358,100.00	385,430.00	*27,330.00
Provision for federal taxes	720,627.91	660,832.58	59,795.33
Total current liabilities	\$4,988,037.69	\$4,833,122.33	\$154,915.36
RESERVES:			
For contingencies	\$334,600.58	\$334,600.58
For preferred stock sinking fund	80,630.50	**80,630.50
Miscellaneous	240,605.48	238,929.12	\$1,676.36
Total reserves	\$655,836.56	\$654,160.20	\$1,676.36
CAPITAL STOCK:			
8% preferred:			
Authorized—72,007 shares—par value \$10 each.			
Issued—7,007 shares	\$70,070.00	**\$70,070.00
Common:			
Authorized—1,000,000 shares without par value			
Issued—827,634 shares	\$6,977,422.07	6,977,422.07
Total capital stock	\$7,047,492.07	\$7,047,492.07
**April 2, 1938 the preferred stock outstanding was shown at \$2,721,600, authorized and issued, less \$2,640,969.50 held for retirement, or a net amount of \$80,630.50 which included \$10,560.50 conversion premium. The conversion privilege was withdrawn by a vote of the directors on May 24, 1938 and in the above figures the conversion premium has been transferred to the sinking fund reserve.			
EARNED SURPLUS	\$17,342,501.17	\$16,617,966.61	\$724,534.56
	\$30,033,867.49	\$29,152,741.21	\$881,126.28

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have made an examination of the comparative balance sheet of First National Stores Inc. as at April 1, 1939 and April 2, 1938 and of the statements of earnings and surplus for the fiscal year ending April 1, 1939. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year but we did not make a detailed audit of all transactions. Our examination did not include a physical inspection of the inventories but we satisfied ourselves that the company's methods of inventory control were adequate.

In our opinion, based upon such examination, the accompanying comparative balance sheet and related statements of earnings and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, its position at April 1, 1939 and April 2, 1938 and the results of its operations for the fiscal year ending April 1, 1939.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts.
May 31, 1939.

FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS—FISCAL YEAR ENDING APRIL 1, 1939

Sales		\$124,222,955.78
<i>Less:</i>		
Cost of sales, expenses, etc. (exclusive of depreciation)		120,005,013.61
		\$ 4,217,942.17
 <i>Deduct:</i>		
Depreciation on fixed assets		956,014.21
		\$ 3,261,927.96
 <i>Add:</i>		
Interest and dividends received		235,248.27
		\$ 3,497,176.23
 <i>Deduct:</i>		
Interest paid	\$ 25,033.80	
Loss on disposition of fixed assets (net)	149,021.34	174,055.14
		\$ 3,323,121.09
 <i>Deduct:</i>		
Provision for federal income taxes		548,754.68
Net profit for the fiscal year ending April 1, 1939		\$ 2,774,366.41

STATEMENT OF SURPLUS FOR THE FISCAL YEAR ENDING APRIL 1, 1939

Earned surplus at April 2, 1938		\$ 16,617,966.61
Net profit for the fiscal year ending April 1, 1939	\$2,774,366.41	
<i>Less:</i>		
Dividends paid:		
Preferred stock	\$ 5,605.60	
Common stock	2,044,226.25	2,049,831.85
		724,534.56
Earned surplus at April 1, 1939		\$ 17,342,501.17

FIRST NATIONAL STORES, INC.

STATEMENT OF EARNINGS - LOCAL YEAR ENDING APRIL 30, 1958

	1958	1957
Net Sales	1,000,000	950,000
Cost of Goods Sold	(600,000)	(580,000)
Gross Profit	400,000	370,000
Operating Expenses	(250,000)	(240,000)
Operating Income	150,000	130,000
Interest Expense	(20,000)	(18,000)
Income Before Income Taxes	130,000	112,000
Income Taxes	(30,000)	(28,000)
Net Income	100,000	84,000

STATEMENT OF MEMBERS FOR THE LOCAL YEAR ENDING APRIL 30, 1958

	1958	1957
Members at Beginning of Year	1,000	950
Members Added	50	40
Members Withdrawn	(20)	(10)
Members at End of Year	1,030	980

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